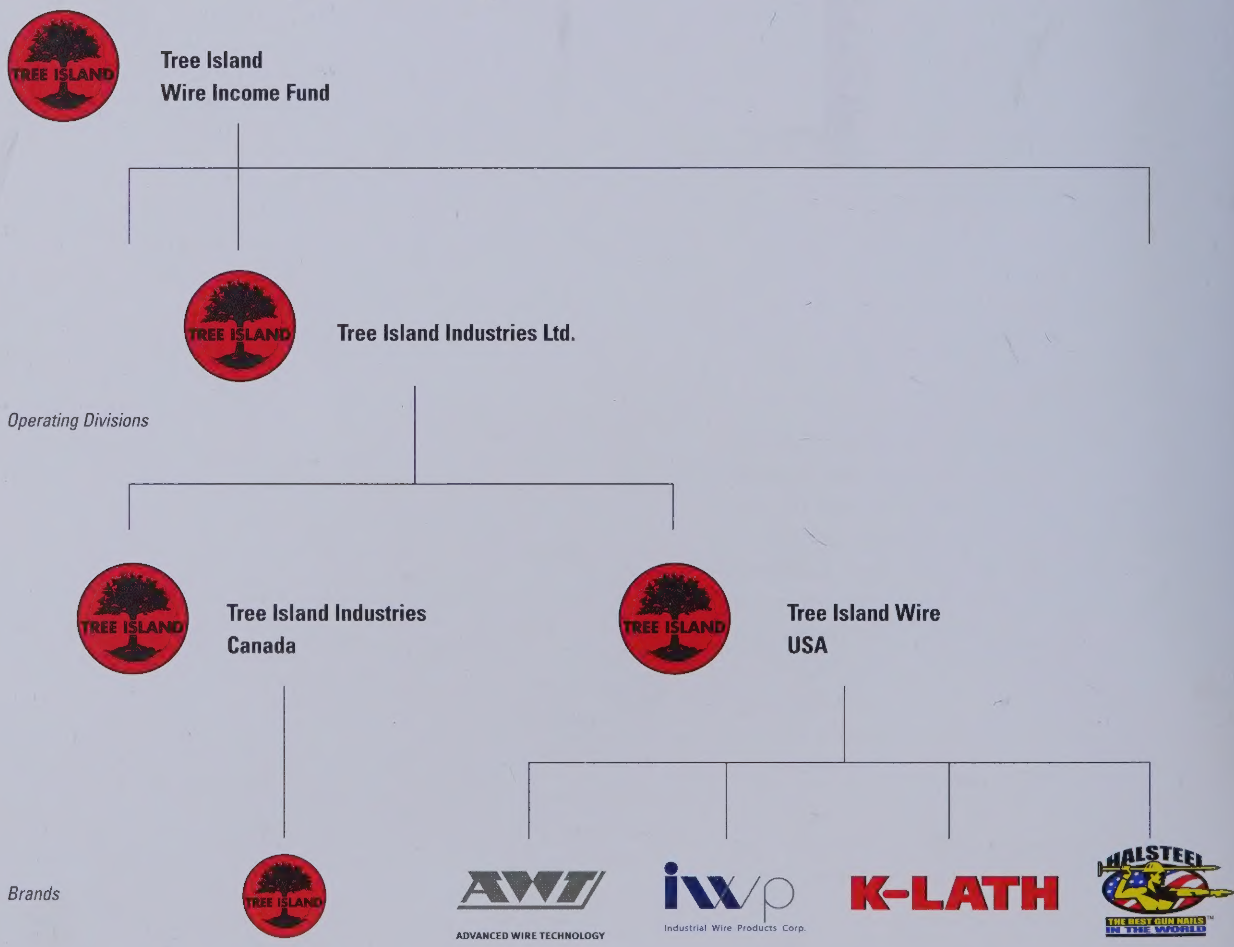
Tree Island Wire Income Fund

2004

Annual Report to Unitholders

About Tree Island Wire Income Fund

Launched on November 12, 2002, Tree Island Wire Income Fund owns 100% of Tree Island Industries. The Fund is listed on the Toronto Stock Exchange (listing symbol TIL.UN).



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About Tree Island Industries

Headquartered in Richmond, British Columbia, Tree Island Industries Ltd. (Tree Island) is one of North America's largest producers of wire and fabricated wire products. Our principal products include nails, bright wire, stainless steel wire, galvanized wire, stucco reinforcing, fencing and other fabricated wire products. These are all made from wire rod sourced from a variety of producers around the world, and serve specific market segments, primarily in the Western United States and Western Canada.

A significant portion of our products are used by the construction industry, including commercial and residential construction, and the residential renovation and improvement market. We also serve the industrial and commercial fabricated products, bedding and upholstery, forestry, agriculture and security industries. Most of our products are sold to distributors, including wholesale distributors of building products and the building products distribution division of integrated building products manufacturers. We also sell to major retail chains such as Home Depot, Rona and Canadian Tire.

Prior to June 2, 2004, our business was organized into five operating divisions: Tree Island, K-Lath, Advanced Wire Technology (AWT), Halsteel Inc., and Industrial Wire Products Corporation (IWP). On June 2, 2004, we announced the consolidation of our four US operating divisions, AWT, Halsteel, IWP and K-Lath, into a single division called Tree Island Wire USA.

Performance Highlights

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- Generated $2.884 per unit of distributable cash and declared distributions of $1.350 per unit
- Increased monthly distributions to unitholders by 18% effective in September 2004
- Increased revenue by 28% to $383.3 million, from $299.1 million in 2003
- Increased EBITDA, plus gains from foreign exchange conversions, by 135% to $88.9 million, from $37.9 million in 2003
- Increased distribution reserve (since inception) to $36.7 million, or $1.63 per unit
- Consolidated four separate US operations into Tree Island Wire USA

FINANCIAL RESULTS 2004

($000's except per unit amounts)

	2004	2003
Net revenue	$ 383,284	$ 299,100
Income before provisions for income tax	62,848	11,907
(Provision for) recovery of income taxes	(15,637)	11,745
Non-controlling interest	(10,719)	(10,621)
Net income	$ 36,492	$ 13,031

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		2004		2003
Basic and diluted net income per unit	$	1.94	$	0.79
Distributable cash				
• Unitholders		53,034		23,733
• Non-controlling interest		10,172		7,911
• Total	$	63,206	$	31,644
Distributions declared				
• Unitholders		25,556		20,960
Distributable cash generated per unit	$	2.884	$	1.444
Cash distributed per unit	$	1.350	$	1.275
Distribution payout %		47%		88%

To our Unitholders

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Tree Island demonstrated its strength and flexibility in 2004, responding successfully to market conditions that were as dynamic and challenging as any we have ever experienced.

During the year, we faced significant raw material supply pressures, a rapid run-up in raw material costs, a stronger Canadian dollar and dramatic fluctuations in demand levels for our finished products. Mixed with these challenges were unprecedented opportunities to build sales volumes, margins and bottom line results for our unitholders. We are pleased to report that we managed the challenges and capitalized on the opportunities, achieving the best results in our history.

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For the 12 months ended December 31, 2004, we generated distributable cash of $2.88 per unit, more than double our initial target of $1.275 per unit. Of this, $2.48 per unit was generated by operations, while $0.40 per unit was the result of gains on foreign exchange conversion activities, net of tax. Our operating results included a year-over-year revenue increase of 28%, an EBITDA increase of 210% and a net income per unit improvement of 145%.

An Exceptional Year

Our record results were achieved against a backdrop of unusual market conditions.

Coming into 2004, we experienced a surge in demand driven by an improving North American economy, but complicated by a shortage of steel wire rod, our principal raw material. Finished product manufacturers within our industry began to issue warnings about limited product availability, long lead times, and increasing prices – fuelling an even greater demand for inventory.

While these conditions significantly improved our sales volumes and gross margins, they also brought the challenges of securing adequate raw material inventory and maintaining strong customer relationships, through a period of rapidly rising prices and very tight supply.

Midway through the year, an increase in import products eased the finished product supply situation, and by the third quarter, most customers had built up sizeable inventories. With the supply situation in hand, customers began to actively reduce inventories. The new challenge became maintaining our position as the first and best choice of customers.

Responding Effectively

Our ability to respond to these market shifts and achieve record results underscores key elements of Tree Island's strategy:

• ***We invest in sophisticated information systems:*** With access to detailed, up-to-the minute information, we were able to carefully monitor and manage our raw material and finished product supplies throughout the year. This, in turn, helped us establish appropriate production levels and keep customers closely informed of changing inventory availability and product prices.

• ***We maintain strong relationships with wire rod suppliers:*** In a year when many of our competitors had difficulty sourcing raw material, our strong relationships and advantageous location helped us secure adequate supplies. As a major buyer of wire rod, we have carefully built and nurtured strong, long-term relationships with a number of high-quality suppliers. Our supply position is enhanced by the location of our manufacturing facility in Richmond, British Columbia. With deep water access from the Pacific, we can shop the world for wire rod and barge it directly from the unloading dock to our plant, eliminating rail and trucking costs.

• ***We work to be the manufacturer of choice:*** We provide our customers with a broad range of high-quality products, ongoing product innovation and high levels of customer service. Our brand names are well established and highly regarded within the nail and fabricated wire industry. These strengths helped us maintain our position as a preferred supplier to our customers throughout the latter part of the year when demand levels fell.

• ***We continually enhance our operating efficiencies:*** Throughout 2004, we continued to focus on cost control, effective use of technology and ongoing improvement in work practices to enhance our profitability. Key initiatives included consolidating our US operations – combining Advanced Wire Technology, Halsteel, Industrial Wire Products, and K-Lath – into a single division called Tree Island Wire USA. As the year progressed, the new division began to take advantage of improved operating efficiencies and consolidated marketing, purchasing and administrative functions. We also consolidated the marketing of our three nail brands during the year, enabling us to develop coordinated marketing and packaging programs.

• ***We have a talented and motivated team of people:*** Tree Island employees responded exceptionally well to the year's changing dynamics, ensuring we remained responsive to customers as conditions unfolded.

Our strategies, together with the significant contribution of our people, helped us respond effectively to the year's challenges–maintaining strong customer relationships while achieving excellent results.

Looking Ahead

We anticipate that 2005 will be a strong year by historical standards, but below the exceptional results achieved in 2004. Economic conditions remain robust, with growing demand from industry segments such as agriculture, mining and manufacturing expected to offset a slight decline in residential housing starts. As the first quarter progresses, customer inventory levels are also returning to more normal levels, which in turn, should support a return to more typical ordering patterns during the first quarter of 2005.

Volumes are projected to remain similar to 2004 levels. Margins in 2005 will likely be higher than 2003, but below those achieved in 2004, reflecting the absence of 2004's one-time inventory gains. Margins may also be affected by continued price increases for wire rod. These increases are being driven by higher costs for the raw materials used in steel making, increases in ocean freight costs, and by recent consolidation in the steel industry. Tree Island's ability to recoup higher raw material costs with price increases could be hampered by increasing competition from offshore suppliers, which became more noticeable in the third and fourth quarters of 2004. A strengthening Canadian dollar could also have a negative short-term influence on results, although the impact is not expected to be significant.

Overall, we are confident of our ability to continue rewarding unitholders with strong distributable cash results. During 2004, we increased our monthly distribution by 18%, from $0.10625 per unit to $0.125 per unit, or $1.50 per unit on an annualized basis, based on the strength of our results and our positive outlook. This increase took effect in September 2004.

As of December 31, 2004, our payout ratio from inception was a very conservative 63%. Moving into 2005, we have a distribution reserve of $1.63 per unit in place, which will be used to fund increased working capital requirements and profit-enhancing programs, and to ensure distribution stability for our unitholders.

At the close of an exciting and very successful year, we thank you, our unitholders, for your confidence in Tree Island Wire Income Fund. We look forward to rewarding your trust in us again in 2005.

We define payout ratio as distributions per unit, divided by distributable cash generated per unit.

We define distribution reserve as distributable cash generated per unit, minus distributions paid per unit.

Ted Leja, President and CEO Tree Island Industries Ltd. and Trustee of the Fund with Rod Senft, Chairman of the Board of Trustees.

Roderick R. Senft
Chairman and Trustee
Tree Island Wire Income Fund

Theodore A. Leja
President and Chief Executive Officer
Tree Island Industries Ltd.

Trustee
Tree Island Wire Income Fund

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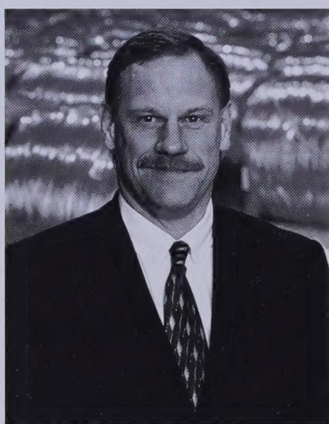

Garry Flesher: Vice President, Finance Tree Island Industries Ltd.

As of March 11, 2005

The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund ("the Fund"). Additional information relating to the Fund, including the Annual Report and Annual Information Form for the year ended December 31, 2004, can be found at www.sedar.com.

The Fund's financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and reported in Canadian dollars.

About the Fund

The Fund was launched on November 12, 2002 with the completion of an initial public offering of 16,438,800 trust units at $10 per unit. Net issue proceeds of $153 million were used to acquire a 75% interest in Tree Island Industries Ltd. ("Tree Island").

As of July 1, 2004, the holders of the remaining 25% interest (the "non-controlling interest") in Tree Island were entitled to exchange their non-voting shares and subordinated notes for 5,479,600 publicly traded units.

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Some of the non-controlling interest exercised this right on July 20, 2004, and the Fund issued 3,876,544 units in exchange for their non-voting shares and subordinated debt. On October 13, 2004, the remaining non-controlling interest exercised this right and the Fund issued 1,603,056 units in exchange for their non-voting shares and subordinated debt. There are now 21,918,400 units of the Fund outstanding, representing a 100% ownership interest in Tree Island.

The Fund's performance depends entirely on the performance of Tree Island.

About Tree Island

Tree Island is one of North America's largest producers of wire and fabricated wire products, including nails, bright wire (including wire for bedding and upholstery industries), stainless steel wire, galvanized wire (including baling wire), stucco reinforcing products, fence products and other fabricated wire products. These products are made from wire rod sourced from a variety of producers around the world.

A significant portion of our products are used by the construction industry, including commercial and residential construction, and the residential renovation and improvement market. We also serve the industrial and commercial fabricated products, bedding and upholstery, forestry, agriculture and security industries. Most of our products are sold to distributors, including wholesale distributors of building products and the building products distribution division of integrated building products manufacturers. We also sell to major retail chains such as Home Depot, Rona and Canadian Tire.

Prior to June 2, 2004, our business was organized into five operating divisions: Tree Island, K-Lath, Advanced Wire Technology (AWT), Halsteel Inc., and Industrial Wire Products Corporation (IWP). On June 2, 2004, we announced the consolidation of our four US operating divisions, AWT, Halsteel, IWP and K-Lath, into a single division called Tree Island Wire USA. The newly consolidated division is expected to benefit from significant operating synergies, more focused leadership, and new growth opportunities. As a result of this consolidation, the legal entities of Halsteel Inc., Halsteel Acquisition Company and IWP were amalgamated into Tree Island Wire (USA) Inc. on December 1, 2004. Our corporate structure is now as follows:

Tree Island Wire Income Fund

100% ownership

Tree Island Industries Ltd.

100% ownership

Tree Island Industries Canada

Brands

Tree Island

Tree Island Wire (USA), Inc.

Brands

K-lath
AWT
IWP
Halsteel

Brands	*Products*	*Customer End Markets*	*Geographic Markets*	*Facilities*	*Founded*
Tree Island	Nails, bright and galvanized wire, wire mesh and fencing products	Construction and renovation, agriculture, forestry and industrial applications	Western United States, Western Canada and Ontario	Richmond, British Columbia, and Ferndale, Washington	1964
K-Lath	A wide range of stucco reinforcing products	Stucco applications for residential, commercial construction and renovation	California, Arizona, Nevada and New Mexico	Fontana, California	1944
AWT	High-carbon wire products such as spring wire, and low-carbon bright wire	Bedding and upholstery, agriculture, mining and processing, distribution and wire fabricating industries	California and Arizona	Rancho Cucamonga, California	1984
IWP	Collated nails, anchor bolts, threaded products, cold-finished bar, bright wire, welded wire mesh and stainless steel wire products	Construction, renovation, wire fabricating, industrial applications, bedding and upholstery, telecom., and consumer products	Western United States and Ohio	Rancho Cucamonga and Pomona, California	1943
Halsteel	Collated nails	Construction and renovation	Western and Southwestern United States	Ontario, California	1997

2004 Overview and 2005 Outlook

In the first half of 2004, our business was affected by a tight supply of wire rod, accompanied by a rapid and substantial increase in its cost. Wire rod is our primary raw material, and normally makes up about 50% of our costs.

Key factors influencing the supply of wire rod in 2004 included increased steel consumption in Asia and consolidation within the steel industry, combined with closures and production curtailments in North America. The tight supply, together with a rapid increase in the cost of raw material inputs used by steel mills, put significant pressure on wire rod prices. Our cost of wire rod in US dollars increased by approximately 70% during the first half of 2004.

Fortunately, demand for our products was also strong during this period, supported by a healthy residential housing market and continued strengthening of the commercial construction and manufacturing sectors in our geographic markets. We were able to increase our selling prices to, not only recover the increased raw material costs, but to also recover the gross margin erosion that occurred in 2003 when weak economic conditions made it difficult to recover increases in the cost of wire rod. As the quantity of our raw material inventory was high coming into this period of rising prices, we also benefited from substantial inventory gains.

In the second half of 2004, the supply of wire rod improved, although certain grades remained in tight supply. Costs for all grades remained high, but began to level off. Sales volumes fell during this period, reflecting the inventory surpluses built up by many customers during the first half of the year in anticipation of price increases and availability issues. Despite the decline in volumes, we were able to retain our price increases through the second half of the year, although in selected areas, we reduced prices in response to competitive situations.

For 2004 as a whole, the impact of higher selling prices, inventory gains and improved gross margins resulted in record financial results. Year-over-year, our revenue increased 28%, EBITDA increased 210% (EBITDA is a non-GAAP measure that is defined on page 13), distributable cash generated per unit increased by 100%, and net income per unit was up 145%.

Following the unprecedented earnings growth achieved in 2004, we expect a return to more typical results in 2005. End-user consumption of wire products in our geographic markets is expected to remain healthy in 2005, with demand from commercial construction and industrial segments such as agriculture, mining and manufacturing helping to offset a modest decline in residential housing starts. As the first quarter progresses, customer inventory levels are declining, supporting a return to more typical ordering patterns.

Overall, volumes are projected to remain similar to 2004 levels. Margins in 2005 will likely be higher than 2003, but below those achieved in 2004, reflecting the absence of 2004's one-time inventory gains. Margins may also be affected by continued price increases for wire rod. These increases are being driven by higher costs for the raw materials used in steel making, increases in ocean freight costs, and by recent consolidation in the steel industry. Tree Island's ability to recoup higher raw material costs with price increases could be hampered by increasing competition from offshore suppliers, which became more noticeable in the third and fourth quarters of 2004. A strengthening Canadian dollar could also have a negative short-term influence on results, although the impact is not expected to be significant.

The supply of wire rod has improved, although certain grades remain in tight supply. We remain confident in our ability to secure adequate raw material supply.

Results from Operations

(In thousands of dollars)

12 months ended December 31	2004	2003	2002[1]
Revenue	383,284	299,100	327,040
Cost of Goods Sold	(283,868)	(254,785)	(270,001)
Depreciation	(20,372)	(22,770)	(9,160)
Gross Profit	79,044	21,545	47,879
Selling, General and Administrative Expenses	(24,539)	(20,149)	(23,493)
Operating Profit	54,505	1,396	24,386
Foreign Exchange Gain	14,044	13,749	6,610
Impairment/Disposal of Long-lived Assets	(2,433)	-	-
Financing Expenses	(3,268)	(3,238)	Note 1
(Provision for) Recovery of Income Taxes	(15,637)	11,745	Note 1
Non-Controlling Interest	(10,719)	(10,621)	Note 1
Net Income	36,492	13,031	Note 1
Operating Profit	54,505	1,396	24,386
Addback Depreciation	20,372	22,770	9,160
EBITDA	74,877	24,166	33,546
Foreign Exchange Gain	14,044	13,749	6,610
EBITDA Plus Foreign Exchange Gains	88,921	37,915	40,156

(1) The Fund came into existence on November 12, 2002. The results shown for 2002 are based on the operating performance of Tree Island Industries Ltd. on a pro forma basis. As a result of the different corporate structure in 2002, the noted items are not comparable to 2003 and 2004.

Year Ended December 31, 2004
Compared to Year Ended December 31, 2003

Revenue

For the 12 months ended December 31, 2004, our revenue was $383.3 million, up $84.2 million, or 28%, from 2003. This increase reflects the 26% increase in our average selling prices combined with a 2% increase in volumes.

Sale's volumes in the first half of 2004 were 12% higher than during the same period in 2003, reflecting strong demand in the residential housing, commercial construction and manufacturing sectors that we serve. In the second half, sales volumes declined by 10% compared to the same period in 2003, reflecting the move by customers to reduce inventory levels as the supply situation improved. The net result was a total sales volume increase of 2% year-over-year.

Revenue gains were partially offset by the negative impact of the strengthening Canadian dollar. The average exchange rate for the Canadian dollar in 2004 was 7.1% stronger than the average for 2003. Had exchange rates in 2004 remained consistent with 2003, our 2004 revenue of $383.3 million would have increased to $409.0 million.

Expenses

Selling, general and administrative ("SG&A") expenses totaled $24.5 million in 2004, up $4.4 million from the same period in 2003. This increase reflects a $5.4 million increase in spending on our variable compensation program, which applies to all salaried employees, and is based on EBITDA generated. The substantial rise in 2004 EBITDA triggered the compensation increase. We also implemented a long-term incentive plan ("LTIP") in 2004, which provides bonus payments to senior management when annual distributions to unitholders exceed certain thresholds of distributable cash per unit. As a result of our September 2004 increase in distributions, this threshold was exceeded in 2004, and an award of $247,000 was generated. Offsetting these increases was a $1.0 million benefit from the stronger Canadian dollar on the conversion of the SG&A expenses of our US operation.

Financing expenses were $3.3 million ($3.2 million in 2003), including interest of $2.1 million on the operating loan ($2.1 million in 2003), miscellaneous interest expense of $0.7 million ($0.7 million in 2003), and the amortization of deferred financing costs of $0.5 million ($0.4 million in 2003).

We incurred a loss of $0.8 million on the disposal of fixed assets in 2004, reflecting the net book value of obsolete equipment scrapped by Tree Island Wire (USA) during the year. There was also a $1.6 million impairment of long-lived assets at Tree Island Wire (USA) relating to surplus nail equipment that was written down to current realizable value.

The Fund recorded an income tax expense of $15.6 million (income tax recovery of $11.7 million in 2003), which represents a current tax expense of $20.8 million (recovery of $1.3 million in 2003), and a future income tax recovery of $5.2 million ($13.0 million in 2003). This tax recovery is based on an expected tax rate of 37.8% applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

The impact of the non-controlling interest reduced earnings by $10.7 million ($10.6 million in 2003 when the non-controlling interest was 25% for the full year). This reflects interest of $3.5 million ($6.2 million in 2003) on the subordinated notes held by the non-controlling interest, $7.1 million ($4.4 million in 2003) for the non-controlling interest's share of Tree Island's income for the period, and $0.1 million in other amounts paid to the non-controlling interest.

EBITDA

EBITDA is a non-defined term under Canadian generally accepted accounting principles. We define EBITDA as operating profit plus depreciation.

EBITDA for 2004 was $74.9 million, an increase of $50.7 million (210%) over the same period in 2003. EBITDA, plus gains from foreign exchange conversions, was $88.9 million, up $51.0 million (135%) over 2003. This increase reflects the improvement to our margins caused by higher selling prices and the beneficial impact of a large raw material inventory coming into a period of

rising prices, as well as the increase in sales volumes. EBITDA was further improved by ongoing cost improvement initiatives and optimal run rates at our manufacturing facilities.

Foreign Exchange Impact

The strengthening Canadian dollar affected Tree Island in two ways in 2004:

1. Within our Canadian operations, a stronger dollar had an unfavourable impact on our US dollar revenues, but benefited our US dollar purchases. For the year ended 2004, our Canadian operations generated US dollar revenues of $72.9 million and incurred US dollar expenses of $83.6 million, creating US$10.7 million of net outflow exposure.

2. The conversion of US dollar EBITDA generated by our US operations was also affected by a stronger Canadian dollar. In 2004, we generated US$35.4 million of EBITDA from our US operations, up from US$7.8 million during the same period last year.

The combination of these factors reduced EBITDA by CDN $2.3 million during 2004.

Net Income

Net income in 2004 totaled $36.5 million or $1.94 per unit, higher than the $13.0 million, or $0.79 per unit, generated in 2003, reflecting the increase in EBITDA.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

2003 was the first full year of operations since the Fund's inception, therefore, Fund information from prior periods is unavailable for comparison. Where relevant, information on the prior operating performance of Tree Island Industries is provided on a pro forma basis.

Revenue

For the 12 months ended December 31, 2003, our net sales were $299.1 million, down $27.9 million from $327.0 million for Tree Island in 2002. The decline in sales related entirely to the strengthening Canadian dollar. Had exchange rates in 2003 remained consistent with 2002, our 2003 sales would have been $331.3 million.

While overall physical volumes were similar to 2002, on a consolidated basis they were down by 3% as certain divisions replaced some sales to external customers with increased sales to other divisions of Tree Island. These interdivisional sales are eliminated on consolidation.

Expenses

Expenses were not comparable between 2003 and 2002.

EBITDA

EBITDA, plus gains made from foreign exchange conversion activities, was $37.9 million in 2003, compared to $40.2 million in 2002. EBITDA was $24.2 million, down $9.3 million from the $33.5 million generated in 2002. Of this $9.3 million reduction, approximately $5.5 million, or 59%, was the result of the short-term, unfavourable impact of the strengthening Canadian dollar on operating earnings.

The remainder of the difference in EBITDA resulted from slightly lower sales volumes in Canada, and higher prices for wire rod. While steel prices climbed throughout 2003, weak economic conditions, together with increased competition from offshore producers, made it difficult for the wire products industry to recover all of the cost increases with higher product prices. The situation changed significantly late in the fourth quarter, and price increases were implemented to address margin erosion.

Foreign Exchange Impact

The strengthening Canadian dollar affected our operating earnings as follows in 2003:

1. The sale of our Canadian-made products into the US resulted in a $4.3 million reduction in EBITDA.
2. Converting earnings from our US operations into Canadian dollars resulted in a $1.2 million reduction in EBITDA.

Net Income

Net income was not comparable between 2003 and 2002.

Distributable Cash

Distributable cash is not a defined term under Canadian generally accepted accounting principles. We define distributable cash as the net cash flow from operations, less maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are fundable through the Fund's committed credit facilities.

We define maintenance capital expenditures as cash outlays required to maintain our plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures are defined as cash outlays required to increase business operating capacity or improve operating efficiency.

Our policy is to make equal monthly distributions to unitholders based on our estimate of the annual distributable cash available for distribution. The amount of distributable cash available for distribution is based on the distributable cash generated, less cash redemption of Fund units, cash utilized to fund working capital requirements and any reserve deemed prudent by the Trustees of the Fund. Distributions are made to unitholders of record on the last business day of each month. Distributions are payable on the 15th day (or closest business day following) of the month following the declaration.

Distributable cash for the years ended December 31, 2004 and December 31, 2003 and the period from November 12, 2002 to December 31, 2002 was calculated as follows:

(in thousands of dollars)	Year Ended December 31 2004	Year Ended December 31 2003	Period from November 12, 2002 to December 31, 2002
Net Cash Flow from Operations	65,377	33,809	2,384
Less Maintenance Capital Expenditures	2,171	2,165	198
Distributable Cash	63,206	31,644	2,186
Distributable Cash			
- Unitholders	53,034	23,733	1,640
- Non-Controlling Interest	10,172	7,911	546
	63,206	31,644	2,186
Distributions Paid or Payable			
- Unitholders	25,556	20,960	2,853
-Non-Controlling Interest (current year)	4,034	6,987	—
-Non-Controlling Interest (from prior year)	—	932	—
	29,590	28,879	2,853
Distributable Cash Generated per Unit	2.884	1.444	0.100
Distributions Paid or Payable per Unit	1.350	1.275	0.174
Distribution Payout %	47%	88%	174%

Distribution payout % is the distributions per unit, divided by the distributable cash generated per unit.

For the year ended December 31, 2004, we generated total distributable cash of $63.2 million, or $2.88 per unit (fully diluted). Of this, $54.4 million, or $2.48 per unit, was generated by operations, while gains from foreign exchange conversion activities contributed an additional $8.8 million, or $0.40 per unit, net of related taxes. Of total distributable cash, $53.0 million was for the benefit of the unitholders, while the remaining $10.2 million was for the benefit of the non-controlling interest.

We declared distributions of $0.106 per unit in each of the eight months from January to August, and $0.125 per unit in each of the four months from September to December, totalling $29.6 million, or $1.350 per unit.

Cash Flow

Following is a summary of our cash flow - (bracketed figures indicate use of cash):

Cash Flow Summary

(in thousands of dollars)	Year Ended December 31 2004	Year Ended December 31 2003	Period from November 12, 2002 to December 31, 2002
Net Cash Flow from Operations	65,377	33,809	2,384
Change in Non-Cash Working Capital Items	(33,280)	(11,283)	(122)
Acquisition, Net of Cash Acquired of $9,940	-	-	(156,144)
Net Proceeds from IPO *(See Note 9)*	-	-	152,988
Issuance of Series B Notes and Non-voting Common Shares	-	-	50,996
Working Capital Adjustment	-	-	10,280
Capital Expenditures	(4,293)	(3,227)	(472)
Distributions to Unitholders	(25,556)	(20,960)	(1,106)
Distributions to NCI	(4,035)	(7,919)	-
Repayment of Long-Term Debt	(74)	(73)	(48,180)
Increase (Decrease) in Revolving Credit Net of Cash	(1,861)	(9,653)	10,624

In 2004, the annual net cash flow from operations was $65.4 million, an increase of $31.6 million over the same period in 2003. The increase reflects the higher EBITDA generated in 2004.

The working capital requirements of our Canadian operations are funded by a secured CDN $42.5 million revolving credit facility. We also have a secured US$25.0 million facility to fund the working capital requirements of our US operations. The amounts available from these facilities are limited to the amount of the calculated borrowing base. The borrowing base is calculated as 85% of eligible receivables and 60% of eligible inventory. On a combined basis, our utilization of these facilities increased from CDN$30.7 million at December 31, 2003 to CDN$34.6 million at December 31, 2004, reflecting an increase in working capital, partially offset by the increased net cash flow from operations. The increase in working capital reflected the higher investment in inventories and receivables caused by the higher cost of wire rod and higher selling prices for our products.

Our credit facilities contain restrictive covenants that limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate

with another entity. In addition, our credit facilities contain financial covenants that require us to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and may limit the Fund's ability to make distributions. We were in full compliance with all covenants at December 31, 2004.

Capital Expenditures

Capital expenditures in 2004 were $4.3 million ($3.2 million in 2003), of which $2.2 million ($2.2 million in 2003) was maintenance capital and $2.1 million ($1.0 million in 2003) was profit improvement capital. The profit improvement capital was spent on equipment to automate various manufacturing processes at Halsteel, IWP and our Tree Island Canadian division. For 2005 we are estimating total capital expenditures of up to $9.7 million, with up to $3.4 million of maintenance capital and $6.3 million of profit improvement capital.

Contractual Commitments

As of December 31, 2004, Tree Island and its subsidiaries had committed to the following:

(in thousands of dollars)	2005	2006	2007	2008	2009	Thereafter
Wire rod purchases	45,282	—	—	—	—	—
Zinc purchases	2,991	—	—	—	—	—
Natural gas purchases	605	—	—	—	—	—
Operating leases agreements	3,331	3,029	1,542	943	710	1,225
Long-term debt repayments	2,245	86	86	95	—	—

Critical Accounting Policies

The consolidated financial statements are based on the selection and application of a number of accounting policies. We believe that the following accounting policies may involve a higher degree of judgment and complexity in their application, and represent our critical accounting policies.

(a) Consolidation

The consolidated financial statements include the accounts of the Fund and TIL, and TIL's wholly owned subsidiaries, Tree Island Wire Holdings (USA) Inc. and Tree Island Wire (USA) Inc. ("TIW"). Significant inter-company accounts and transactions have been eliminated on consolidation.

(b) Translation of foreign currencies

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated into equivalent Canadian dollars at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operations and retained earnings.

The consolidated financial statements of TIW are translated into Canadian dollars as follows:

- assets and liabilities using the exchange rates in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and
- unrealized translation gains and losses are deferred and presented in the cumulative translation adjustment as a component of unitholders' equity.

(c) Inventories

Inventories are stated at the lower of weighted average cost and net realizable value. For finished and semi-finished products, cost includes raw

materials, applicable labour and manufacturing overhead. Certain consumable inventory is purchased forward. Any losses implicit in the forward contracts are recorded when anticipated.

(d) Goodwill

Goodwill acquired through business combinations is not amortized and is tested for impairment at least annually.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and that also affect the reported amounts of revenues and expenses during the reporting period. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

(a) Allowance for doubtful accounts

We anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimation of the potential of recovering our accounts receivable and incorporates current and expected collection trends.

(b) Inventory Reserves

We anticipate that a certain portion of our inventory may become damaged or obsolete. The reserve is based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

(c) Environmental Reserves

Tree Island has reserves established for several environmental issues. The amount of these reserves is based on current engineering and legal estimates. These estimates are reviewed regularly and the reserve is updated when they change.

(d) Sales Claims Reserve

We anticipate a certain level of customer claims relating to pricing, quantity and quality. The estimates used to determine this reserve are based on historical trends.

(e) Depreciation

Property, plant and equipment are recorded at cost. No depreciation is charged on capital projects during the period of construction. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets as follows:

Buildings and improvements	19 to 25 years
Machinery and equipment	4 to 15 years

(f) Impairment of long-lived assets

Effective January 1, 2004, we prospectively adopted the new CICA Handbook Section 3063, "Impairment of Long-Lived Assets". This recommendation establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. We conduct our impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment-loss, if any, is determined as the excess of the carrying value of the asset over its fair value, and is charged to earnings.

(g) Asset Retirement Obligations

We prospectively adopted the recommendations of CICA Handbook Section 3110 "Asset Retirement Obligations" as of January 1, 2004. These recommendations focus on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As we expect to use the majority of our property, plant and equipment for an indefinite period, no removal date can be determined, and

consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

(h) Income taxes

We follow the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

Changes in Accounting Policies

In 2004, we adopted the following policies:

- Impairment of long-lived assets
- Asset Retirement Obligations

These policies are discussed in the section above.

Risks and Uncertainties

Investment in the Fund is subject to a number of risks. Cash distributions to unitholders are dependent upon the ability of Tree Island to pay its interest and principal obligations under the notes, and to declare and pay dividends in respect of the voting common shares. Tree Island's income is dependent upon the fabricated wire products business, which is susceptible to a number of risks.

Risks affecting Tree Island include competition from one or more competitors in all geographic areas where our operations are located, as well as competition from importers; dependence on the construction industry (60% of our sales are directly related to construction activity); availability of raw materials (50% of our costs are for wire rod, a product that must be sourced in the open market); dependence on key personnel; labour relations; certain regulatory and environmental risks; foreign exchange fluctuations; the effect of leverage and restrictive covenants in financing arrangements; product liability; the ability to obtain insurance; energy cost increases; the ability to fund necessary future capital investments; and changes in tax legislation.

Quarterly Results

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2004. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter to quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as indication of future performance. In addition, fourth quarter results are traditionally lower than the other quarters due to the seasonality of our business.

Quarterly Results

(amounts in thousands of dollars, except per unit amounts)
(unaudited)

Three Months Ended:	Dec 31 2004	Sept 30 2004	June 30 2004	Mar 31 2004	Dec 31 2003	Sept 30 2003	June 30 2003	Mar 31 2003
Revenue	72,646	106,504	117,561	86,573	65,958	75,371	77,408	80,363
EBITDA								
EBITDA from Operations	4,364	24,049	33,693	12,771	2,613	6,232	7,408	7,911
Foreign Exchange Gain	6,259	4,449	1,614	1,722	2,706	2,426	5,009	3,610
EBITDA plus Foreign Exchange Gain	10,623	28,498	35,307	14,493	5,319	8,658	12,417	11,521
Net Income	4,028	14,616	13,718	4,130	3,982	883	5,248	2,918
Income per Unit/Share	0.18	0.72	0.83	0.25	0.24	0.05	0.32	0.18
Distributable Cash Generated								
Unitholders	8,055	18,961	17,806	8,212	3,018	5,625	8,121	6,969
Non-Controlling Interest	-	1,499	5,935	2,738	1,006	1,875	2,707	2,323
Total	8,055	20,460	23,741	10,950	4,024	7,500	10,828	9,292
Distributions Paid or Payable								
Unitholders	8,219	6,856	5,240	5,240	5,240	5,240	5,240	5,240
NCI (Current Year)	-	541	1,747	1,747	1,747	1,747	1,747	1,747
NCI (Prior Year)	-	-	-	-	-	-	-	932
Total	8,219	7,397	6,987	6,987	6,987	6,987	6,987	7,919
Distributable Cash Generated per Unit	0.368	0.933	1.083	0.500	0.184	0.342	0.494	0.423
Distributions Declared per Unit	0.375	0.338	0.319	0.319	0.319	0.319	0.319	0.319
Distribution Payout %	102%	36%	29%	64%	173%	93%	65%	75%

Note: as mentioned previously, the Fund was established on November 12, 2002. As such, no quarterly financial information for the fiscal year 2002 is available.

Fourth Quarter 2004 Results

For the three months ended December 31, 2004, we generated total distributable cash of $8.1 million, or $0.368 per unit (fully diluted), an increase of 100% from $4.0 million, or $0.184 per unit (fully diluted) for the same period in 2003. Distributions of $0.375 per unit, were declared during the period, compared to $0.319 per unit in the same period in 2003. The increase in distributions declared reflects the 18% increase in monthly distribution payments that took effect in September 2004.

Fourth quarter revenue increased 10.1% to $72.6 million, from $66.0 million during the same period in 2003. This increase reflects a 36% increase in our average selling price, offset by a 19% decrease in volumes. End-user consumption of nails, concrete reinforcing, fencing and wire products is typically slower during the winter months, and many of our customers were working through large inventories built up during the first half of 2004. Despite the decline in sales volumes, we were able to maintain pricing established in the first half of the year in response to strong demand and higher raw material costs, although in selected areas we reduced prices in response to competitive situations.

EBITDA, plus foreign exchange gains, increased 99.7% to $10.6 million, from $5.3 million in the fourth quarter of 2003. As a percentage of revenue, EBITDA plus foreign exchange gains, was 14.6%, compared to 8.0% during the same period in 2003. The increase in EBITDA reflects the positive impact of higher selling prices, combined with an increase in gains on foreign exchange conversion activities. The net foreign exchange gain was $6.3 million in the fourth quarter of 2004, compared to

$2.7 million in the same period in 2003. Net income for the period was $4.0 million ($0.18 per unit), compared to the $4.0 million ($0.24 per unit) recorded during the same period in 2003.

Forward-looking Statements and Risk

This document contains "forward-looking" statements which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such statements may use "may", "will", "expect", "believe", "plan" and other similar words. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document.

These forward-looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in, or underlying such forward-looking statements are: competition, dependence on the construction industry, supplies of raw materials, dependence on key personnel, labour relations, regulatory matters, environmental risks, the successful execution of acquisition and integration strategies, foreign exchange fluctuations, the effect of leverage and restrictive covenants in financing arrangements, product liability, the ability to obtain insurance, energy cost increases, the ability to fund necessary future capital investments, and changes in tax legislation, as well as changes in legislation and governmental regulation and in accounting policies and practices.

Any forward-looking statement speaks only as of the date on which it is made and the Fund undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for the Fund to predict which will arise after the date of this document.

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

TA Leja

Theodore A. Leja
President and Chief Executive Officer,
Tree Island Industries Ltd.

Auditors' Report

To the Unitholders of Tree Island Wire Income Fund

We have audited the consolidated balance sheets of **Tree Island Wire Income Fund** as at December 31, 2004 and 2003 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended.

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Vancouver, British Columbia
February 25, 2005

Consolidated Balance Sheet

Tree Island Wire Income Fund

(In thousands of dollars)

As at December 31	2004	2003
Assets		
Current		
Cash	$ 2,186	$ 155
Accounts receivable	27,599	25,645
Prepaid expenses	2,252	2,168
Taxes receivable	—	432
Inventories *(note 3)*	123,939	79,092
	155,976	107,492
Property, plant and equipment *(note 4)*	109,655	131,325
Deferred charges *(note 5)*	1,611	1,826
Goodwill	44,405	48,397
	$ 311,647	$ 289,040
Liabilities		
Current		
Revolving credit *(note 6)*	$ 34,572	$ 30,680
Current portion of long-term debt *(note 7)*	2,245	75
Accounts payable and accrued liabilities	58,741	44,751
Income and other taxes payable	2,864	—
Interest payable	361	237
	98,783	75,743
Long-term debt *(note 7)*	277	2,706
Non-current liabilities	571	799
Future income taxes *(note 11)*	23,141	31,550
Non-controlling interest *(note 8)*	—	49,800
	122,772	160,598
Unitholders' Equity	188,875	128,442
	$ 311,647	$ 289,040

Approved on behalf of the Tree Island Wire Income Fund

TA Leja

Theodore A. Leja, Trustee

Rod Senft

Roderick R. Senft, Trustee

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Operations

Tree Island Wire Income Fund

(In thousands of dollars, except per unit amounts)

	Year Ended December 31, 2004	Year Ended December 31, 2003
Sales	$ 383,284	$ 299,100
Cost of goods sold	283,868	254,785
Depreciation	20,372	22,770
Gross profit	79,044	21,545
Selling, general and administrative expenses	24,539	20,149
Operating profit	54,505	1,396
Foreign exchange gain	14,044	13,749
Impairment/disposal of long-lived assets *(note 15)*	(2,433)	—
Financing expenses	(3,268)	(3,238)
Income before provision for income taxes	62,848	11,907
(Provision for) recovery of income taxes *(note 11)*	(15,637)	11,745
Income before non-controlling interest	47,211	23,652
Non-controlling interest *(note 8)*	(10,719)	(10,621)
Net income for the year	$ 36,492	$ 13,031
Basic and diluted net income per unit	1.94	$ 0.79
Weighted-average number of units (basic and diluted)	18,790,618	16,438,800

Consolidated Statement of Unitholders' Equity

Tree Island Wire Income Fund

(In thousands of dollars)

	Unitholders' Capital	Retained Earnings	Distributions	Cumulative Translation Adjustment	Total
Balance as at November 11, 2002	$ 152,988	$ —	$ —	$ —	$ 152,988
Activity for the 50 days	—	(1,308)	(2,853)	309	(3,852)
Balance as at December 31, 2002	152,988	(1,308)	(2,853)	309	149,136
Activity for the year	—	13,031	(20,960)	(12,765)	(20,694)
Balance as at December 31, 2003	152,988	11,723	(23,813)	(12,456)	128,442
Issue of fund units to non-controlling interest	56,869	—	—	—	56,869
Activity for the year	—	36,492	(25,556)	(7,372)	3,564
Balance as at December 31, 2004	$ 209,857	$ 48,215	$ (49,369)	$ (19,828)	$ 188,875

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

Tree Island Wire Income Fund

(In thousands of dollars)

	Year Ended December 31, 2004	Year Ended December 31, 2003
Operating Activities		
Net income for the year	$ 36,492	$ 13,031
Items not involving cash		
Depreciation	20,372	22,770
Impairment/disposal of long-lived assets	2,433	—
Amortization of deferred charges	531	420
Future income tax recovery	(5,170)	(13,033)
Non-controlling interest *(note 8)*	10,719	10,621
Net cash flow from operations	65,377	33,809
Change in non-cash operating assets and liabilities		
Accounts receivable	(1,954)	7,041
Inventories	(44,847)	3,436
Accounts payable and accrued liabilities	13,935	(16,519)
Income and other taxes payable	3,587	(4,252)
Other	(4,001)	(989)
	32,097	22,526
Investing Activities		
Purchase of property, plant and equipment	(4,293)	(3,227)
	(4,293)	(3,227)
Financing Activities		
Payments to non-controlling interest	(4,035)	(7,919)
Repayment of debt	(74)	(73)
Drawdown of revolving credit	3,892	4,350
Distributions to unitholders	(25,556)	(20,960)
	(25,773)	(24,602)
Increase (Decrease) in cash	2,031	(5,303)
Cash, beginning of year	155	5,458
Cash, end of year	$ 2,186	$ 155
Supplemental Cashflow Information		
Interest paid	$ 2,613	$ 2,638
Income taxes paid	$ 17,144	$ 4,738
Non-cash financing activities:		
Issue of fund units to non-controlling interest	$ 56,869	$ —

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the years ended December 31, 2004 and 2003

(In thousands of dollars, except per unit amounts)

1. Formation of the Fund and Conversion of Non-controlling Interest to Publicly Traded Units

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated September 30, 2002. The Fund was formed to acquire 75% of the common shares and $136,995 of 13.75% Series A unsecured subordinated notes ("Tree Island Notes") of TI Industries Inc. ("TII"), the predecessor of Tree Island Industries Ltd. ("TIL"). This acquisition was completed on November 12, 2002.
To finance this acquisition, the Fund issued 16,438,800 trust units in a public offering for net proceeds of $152,988, after deducting expenses of the offering.

Each unitholder participates pro rata in distributions of net earnings and, in the event of termination of the Fund, participates pro rata in the net assets remaining after satisfaction of all liabilities. Income tax obligations related to the distribution of net earnings by the Fund are the obligations of the unitholders.

Concurrently, with the Fund's acquisition of its effective 75% interest in TII, the 25% non-controlling interest in TII, represented by non-voting common shares and Series B notes, was issued to the former shareholders of TII.

During 2004, 100% of the non-controlling interest in TII exercised their right to exchange their non-voting shares and Series B notes for publicly traded units in the Fund. The Fund issued 5,479,600 units in exchange. After the conversion of the non-controlling interest the Fund owns 100% of the common shares of TIL.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Consolidation

The consolidated financial statements include the accounts of the Fund and TIL, and TIL's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. and Tree Island Wire (USA) Inc. ("TIW"). During 2004, Industrial Wire Products ("IWP"), and Halsteel Acquisition Company ("HAC") and its subsidiary were amalgamated into TIW. Significant intercompany accounts and transactions have been eliminated on consolidation.

(b) Translation of foreign currencies

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated into equivalent Canadian dollars at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operations and retained earnings.

The consolidated financial statements of TIW are translated into Canadian dollars as follows:

- assets and liabilities using the exchange rates in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and
- unrealized translation gains and losses are deferred and presented in the cumulative translation adjustment as a component of unitholders' equity.

(c) *Inventories*

Inventories are stated at the lower of weighted average cost and net realizable value. For finished and semi-finished products, cost includes raw materials, applicable labour and manufacturing overhead. Certain consumable inventory is purchased forward. Any losses implicit in the forward contracts are recorded when anticipated.

(d) *Property, plant and equipment and depreciation*

Property, plant and equipment are recorded at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets as follows:

Buildings and improvements	19 to 25 years
Machinery and equipment	4 to 15 years

No depreciation is charged on capital projects during the period of construction.

(e) *Impairment of long-lived assets*

Effective January 1, 2004 the Fund prospectively adopted the new CICA Handbook Section 3063, "Impairment of Long-Lived Assets". This recommendation establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment-loss, if any, is determined as the excess of the carrying value of the asset over its fair value, and is charged to earnings.

(f) *Asset Retirement Obligations*

The Fund prospectively adopted the recommendations of CICA Handbook Section 3110 "Asset Retirement Obligations" as of January 1, 2004. These recommendations focus on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As the Fund expects to use the majority of its property, plant and equipment for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

(g) *Goodwill*

Goodwill acquired through business combinations is not amortized and is tested for impairment at least annually.

(h) *Revenue recognition*

The Fund recognizes revenue when legal title passes to customers, price is fixed or determinable and collectibility is reasonably assured.

(i) *Post-retirement benefits*

The Fund has four defined contribution pension plans as described in Note 10. The cost of defined contribution pensions is expensed as earned by employees.

The cost of a benefit plan for a senior executive is accrued using actuarial techniques during the years of service.

(j) *Deferred financing costs*

Costs incurred in connection with securing the credit facilities are amortized to financing expenses on a straight-line basis over the term of the related indebtedness. Deferred financing costs are shown net of amortization.

(k) *Income taxes*

The Fund follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(l) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Financial instruments and risks

The Fund's financial instruments consist primarily of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable and accrued liabilities, interest payable, income taxes receivable/payable and long-term debt.

The carrying values of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable and accrued liabilities, interest payable and income taxes receivable/payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Fund for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. For the period covered by these statements, the estimated fair value of long-term debt approximates the carrying value.

The Fund is exposed to interest rate risk arising from fluctuations in interest rates on its amounts payable under the revolving lines of credit and long-term debt.

The Fund is exposed to credit risk with respect to its accounts receivable; however, this is minimized by the Fund's large customer base which covers business sectors throughout North America. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

The Fund is exposed to foreign exchange risk. Certain of the Fund's sales and purchases are denominated in US dollars. Any increases or decreases to the foreign exchange rates could increase or decrease the Fund's income. The Fund does not use derivative instruments to manage this risk.

(n) Net income per unit

Basic net income per unit is calculated by dividing net income by the weighted-average number of units outstanding during the period. Diluted income per unit was calculated to give effect to units issuable on conversion of the subordinated Series B notes and non-voting common shares of TIL prior to their conversion to fund units (Note 9). This had no dilutive effect in the periods presented.

(o) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

3. Inventories

	December 31 2004	December 31 2003
Raw Materials	$ 74,347	$ 43,160
Finished and semi-finished products	40,673	$ 27,955
Consumable supplies and spare parts	8,919	7,977
	$123,939	$ 79,092

4. *Property, Plant and Equipment*

	Cost	Accumulated Depreciation	December 31 2004 Net Book Value	December 31 2003 Net Book Value
Land and improvements	$ 11,757	$ —	$ 11,757	$ 11,881
Building and improvements	34,957	5,661	29,296	31,925
Machinery and equipment	102,247	35,289	66,958	85,216
Construction in progress	1,644	—	1,644	2,303
	$ 150,605	$ 40,950	$ 109,655	$ 131,325

5. *Deferred Charges*

	December 31 2004	December 31 2003
Deferred financing costs, net of amortization	$ 1,520	$ 1,608
Other	91	218
	$ 1,611	$ 1,826

6. *Revolving Credit*

	December 31 2004	December 31 2003
TIL Cdn $42,500 revolving credit facility bearing interest at Canadian Prime rate plus 1.00% per annum(a), (c)	$ 19,005	$ 8,280
TWI US $25,000 revolving credit facility (US$14,920 at December 31, 2004 and US$17,334 at December 31, 2003 draw down bearing interest at the US Index rate plus 1.00% per annum (a), (b), (d)	15,567	22,400
	$ 34,572	$ 30,680

(a) The TIL and TIW credit facilities are secured by security interests in all real and personal property of TIL (for the TIL credit facility) and of TIW (for the TIW credit facility).

(b) The US Index rate for the TIW US dollar revolving credit facilities is defined as the higher of the base rate on corporate loans published in the Wall Street Journal and the federal funds rate, plus 0.5%.

(c) The TIL Canadian revolving credit facility bears interest at the Canadian Prime rate plus 1% per annum or, at the election of the Fund, the banker's acceptance rate plus 2.25%. The interest rates were 5.25% and 4.81%, respectively, at December 31, 2004.

(d) The TIW credit facility bear interest at the US Index rate plus 1% per annum or, at the election of the Fund, the LIBOR rate plus 2.25% per annum. The interest rates were 6.25% and 4.66%, respectively, at December 31, 2004.

(e) The credit facilities are secured by security interests in all existing and after-acquired real and personal property of TIL and of TIW. TIL and TIW are in compliance with ratios of working capital and other covenants which include restrictions on lending and investing activities.

7. Long Term Debt

	December 31 2004	December 31 2003
TIW US dollar promissory note, bearing interest as described below (US$702), due July 2005	$ 845	$ 907
TIW US dollar promissory note, bearing interest as described below (US$1,098), due July 2005	1,322	1,419
John Ternus unsecured promissory notes bearing interest at 10.25% per annum (US$295 at December 31, 2004 and US$352 at December 31, 2003), due December 2008	355	455
	2,522	2,781
Current portion	(2,245)	(75)
	$ 277	$ 2,706

The TIW promissory notes bear interest at a floating rate equal to the rate quoted from time to time by Bank of America plus 1% per annum and are secured by a floating charge on TIW assets, subordinated to the revolving credit facility (note 6).

8. Non-Controlling Interest

(i) As at December 31, 2004 and 2003

	December 31 2004	December 31 2003
TIL		
Non-voting common shares (a)	$ 5,241	$ 5,241
Series B Notes (b)	44,941	45,755
Payment of Series B Notes - Principal	(428)	(813)
Share of retained earnings	11,020	3,908
Share of cumulative translation adjustment	(3,905)	(4,291)
	56,869	49,800
Conversion of non-controlling interest to fund units	(56,869)	—
	$ —	$ 49,800
TIW		
Non-controlling interest	$ —	$ 2,640
Share of deficit	—	(1)
Share of cumulative translation adjustment	—	(379)
	—	2,260
Purchase of TIW non-controlling interest charged to goodwill	—	(2,260)
	$ —	$ —
	$ —	$ 49,800

(ii) For the year ended December 31, 2004 and December 31, 2003

	Year Ended December 31 2004	Year Ended December 31 2003
TIL		
Current period share of income	$ 7,112	$ 4,352
Dividends on Series B Notes	91	—
Interest on Series B Notes	3,516	6,245
	$ 10,719	$ 10,597
TIW		
Current period share of (loss) income	$ —	$ 24
	$ 10,719	$ 10,621

(a) The non-voting common shares represent all of the issued and outstanding non-voting common shares of TIL, representing 25% of the issued and outstanding common shares of TIL at December 31, 2003.

(b) The notes were 13.75%, unsecured, subordinated Series B notes issued pursuant to the note indenture between TIL and Computershare Trust Company of Canada, as trustee, dated as of November 12, 2002.

The notes and non-voting common shares in TIL were exchanged for trust units on the basis of one unit for every $8.35 principal amount of Series B notes and one non-voting common share for an aggregate of 5,479,600 units on July 20, 2004 and October 13, 2004.

9. Unitholders' Equity

An unlimited number of Fund units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Fund unit transactions during the period November 12, 2002 to December 31, 2004 were as follows:

	Number of Units	Gross Proceeds	Issuance Costs	Net Proceeds
Initial issuance of Fund units	16,438,800	$ 164,388	$ 11,400	$ 152,988
Conversion of non-controlling interest – July 20, 2004	3,876,544	39,683	—	39,683
Conversion of non-controlling interest – October 13, 2004	1,603,056	17,186	—	17,186
Total	21,918,400	$ 221,257	$ 11,400	$ 209,857

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemption by the Fund in any one month. The limitations may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of pro-rata distribution of TIL securities held by the Fund.

10. Post-Retirement Benefits

(a) The fund has four defined contribution pension plans. Contributions made by the Fund amounted to $1,630 for the year ended December 31, 2004 ($1,470 for year ended December 31, 2003). Funding obligations are satisfied upon making contributions.

(b) The senior executive retirement plan is unfunded. The cost expensed in the year ended December 31, 2004 is $524 ($319 in the year ended December 31, 2003). At December 31, 2004 $2,216 ($1,860 as at December 31, 2003) an estimate of the amount payable under the plan is included in accounts payable in respect of this plan.

11. Income Taxes

The Fund is taxed as a "Mutual Fund Trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustees intend to distribute or designate all taxable income directly earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Accordingly, there has been no provision for income taxes for the Fund. A provision for income taxes is recognized for the Fund's subsidiaries, as these companies are taxable.

The provision for the period is divided between current and future taxes as follows:

	Year Ended December 31 2004	Year Ended December 31 2003
Current tax (expense) recovery	$ (20,807)	$ (1,288)
Future tax recovery	5,170	13,033
	$ (15,637)	$ 11,745

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the earnings before income taxes as shown in the following table:

	Year Ended December 31 2004	Year Ended December 31 2003
Net income before income taxes	$ 62,848	$ 11,907
Net income of the Fund subject to tax in the hands of the recipient	(24,282)	(24,604)
Net income (loss) of subsidiary company before income taxes	38,566	(12,697)
Tax rate	37.8%	38.5%
Expected provision for (recovery of) income taxes	$ 14,578	$ (4,888)
Increased (Reduced) by:		
Revisions of prior periods estimates (over) under accrual	(29)	(3,900)
Foreign exchange gain (loss) for tax purposes on intercompany debt not recognized for book purposes	(474)	(1,722)
Differential tax rates on US subsidiaries	669	45
Other	893	(1,280)
Income tax expense (recovery)	$ 15,637	$ (11,745)

The components of future income tax assets and liabilities are as follows:

	December 31 2004	December 31 2003
Future income tax assets		
Reserves and other liabilities	$ 5,223	$ 6,098
Goodwill	1,408	—
Other	193	460
	$ 6,824	$ 6,558
Future income tax liabilities		
Property, plant and equipment	$ 29,071	$ 34,413
Deferred costs	153	180
Prepaid expenses	—	136
Goodwill	—	1,632
Other	741	1,747
	$ 29,965	$ 38,108
Future income tax liability, net	$ 23,141	$ 31,550

12. Related Party Transactions

The Fund had the following balances with related parties which arose in connection with the acquisition transaction:

	December 31 2004	December 31 2003
Accounts payable to the Series B note holders	$ —	$ 102
Accounts receivable from an entity related to TIL	$ —	$ 315
Accounts payable to a Series B note holder	$ —	$ 108

13. Contingent Liabilities, Commitments and Other Matters

(a) Environmental matters

The Fund has made provisions for several environmental issues. Accruals as at December 31, 2004 include $463 (December 31, 2003 - $887) for potential costs of environmental related issues. Spending related to environmental matters was $ 827 for the year ended December 31, 2004 ($854 for the period ended December 31, 2003).

(b) Litigation and claims

The Fund is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on the Fund's financial position, results of operations or cash flows. The Fund maintains provisions for such items which it considers to be adequate.

(c) *Commitments*

The Fund and its subsidiaries have committed to rod purchases totalling $ 45,282 (US$ 37,623), zinc purchases totalling $ 2,991 (US$2,485) and gas purchases totalling $ 605 (US$ 503) at December 31, 2004.

The Fund and its subsidiaries also have various operating lease agreements with remaining terms of up to seven years with varying renewal options. Lease rental payments due under non-cancelable operating leases are as follows:

2005	$ 3,331
2006	3,029
2007	1,542
2008	943
2009	710
Thereafter	1,226
	$ 10,781

14. *Segmented Information*

(a) *General information*

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry with no separately reportable business segments. The products are sold primarily to customers in the United States and Canada.

(b) *Geographic information*

	Year Ended December 31 2004	Year Ended December 31 2003
Sales (i)		
Canada	$ 77,909	$ 64,737
United States	303,772	233,755
Other	1,603	608
	$ 383,284	$ 299,100

	December 31 2004	December 31 2003
Property, plant and equipment (ii)		
Canada	$ 67,985	$ 75,202
United States	41,670	56,123
	$ 109,655	$ 131,325
Goodwill (ii)		
Canada	$ 24,655	$ 26,411
United States	19,750	21,986
	$ 44,405	$ 48,397

(i) Sales are attributed to geographic areas based on the location of customers.

(ii) Property, plant and equipment and goodwill are attributed to geographic areas based on the location of the subsidiary company owning the assets.

15. *Impairment/Disposal of Long-Lived Assets*

An impairment loss has been recognized on nail making equipment. The amount of the impairment was determined by valuing the equipment at the fair market value of the assets. These assets are included under property, plant and equipment in the United States geographic segment.

	Year Ended December 31 2004	Year Ended December 31 2003
Loss on disposal of fixed assets	$ (785)	$ —
Impairment of long-lived assets	(1,648)	—
	$ (2,433)	$ —

Management – Tree Island Industries Ltd.

Theodore Leja
President and Chief Executive Officer

Ted Leja joined Tree Island in 1992 as President and Chief Operating Officer. Prior to joining the Company, he was President of the Bar, Rod and Wire division of Bethlehem Steel Corporation. From 1980 to 1984, Ted served as President of Georgetown Texas Steel Company, then a part of the Korf Steel complex. From 1977 to 1980, he was instrumental in the start up of the Raritan River Steel Company. Prior to that, he spent 10 years with North Star Steel Company (part of Cargill, Inc.) in a number of positions, ultimately becoming its President.

Garry Flesher
Vice President, Finance

Garry Flesher joined Tree Island in 1982 and became Vice President of Finance in 1991. He has over 27 years of experience in finance and accounting, and is a Certified Management Accountant.

Gerald Gregoire
Vice President of Sales and Marketing

Gerald Gregoire joined Tree Island in 1988 and has been Vice President of Sales and Marketing since 1992. Prior to joining the Company, Gerald served as Vice President of Marketing at Irving Industries Ltd. in Calgary, Alberta.

Stephen Ogden
Vice President of Operations

Stephen Ogden came to Tree Island in 1996 from Weiser Lock International, a division of Masco Industries, where he was Vice President of Engineering. He has over 30 years of operations, manufacturing, tooling, and engineering experience. Stephen is a member of both the Institute of Mechanical and Production Engineers and the Society of Manufacturing Engineers. He received his MBA from Simon Fraser University in 1991.

Rebecca Kalis
President, Tree Island Wire USA

Rebecca Kalis was previously the Vice President and General Manager of K-Lath and Chief Operating Officer of Halsteel. Prior to joining K-Lath, she was General Manager of Air Nail (a collated nail manufacturer in California), and prior to that was a consultant in the Human Resources and Manufacturing fields. She received her MBA from UCLA in 1977 and has an undergraduate degree in Economics from Hollins College.

Board of Trustees – Tree Island Wire Income Fund

Jacqueline Hurlbutt
Trustee

Jacqueline Hurlbutt spent nearly 30 years with Banc One Capital Markets, Inc. and its predecessor companies, including the First National Bank of Chicago, in progressively senior roles. From 1986 onwards, she was a Senior Vice-President, and most recently served as Banc One Capital Markets Head of Loan Syndications. Ms. Hurlbutt has acted as a director for several corporations and non-profit organizations.

J. Trevor Johnstone, CPA-Inactive
Trustee

A Chartered Accountant, Trevor Johnstone is a founder and principal of Tricor Pacific Capital, Inc., a private equity investment firm. He participates in all aspects of Tricor's investment activity, and is an active director of each portfolio company. Mr. Johnstone acts as a director of a number of public and private companies. He was Chairman of Pacifica Papers Inc. during that company's billion-dollar merger with Norske Skog Canada Limited, and now sits on the board of the combined entity. Mr. Johnstone is a member and the Chairman of the Finance and Audit Committee of the Board of the Vancouver Coastal Health Authority, which is the largest healthcare authority in Canada.

Kevin Layden
Trustee

As President and Chief Operating Officer of Best Buy Canada Ltd., Kevin Layden is responsible for both the Future Shop and Best Buy brands in the Canadian marketplace. Mr. Layden joined Best Buy Canada Ltd. (then Future Shop Ltd.) in 1997 and was named President in 1999. Prior to joining Best Buy Canada Ltd., Mr. Layden had a highly successful 17-year career with Circuit City Stores Inc., the second largest consumer electronics retailer in the United States. While at Circuit City, he held a number of increasingly senior positions. His last position with Circuit City was Assistant Vice President and General Manager, New York.

Theodore A. (Ted) Leja
Trustee

Ted Leja is President and Chief Executive Officer of Tree Island Industries Ltd. He joined the company in 1992, bringing significant experience in the steel industry. Mr. Leja previously served as President of the Bar, Rod and Wire division of Bethlehem Steel Corporation (1984-1992), and President of Georgetown Texas Steel Company (1980 to 1984), then a part of the Korf Steel complex. From 1977 to 1980, he was instrumental in the start-up of the Raritan River Steel Company. Prior to that, he spent 10 years with North Star Steel Company (part of Cargill, Inc.) in a number of positions, ultimately becoming its President.

Robert L. Phillips
Trustee

Bob Phillips was previously President and Chief Executive Officer of the BCR Group of Companies. The BCR Group is comprised of a portfolio of companies providing rail transportation, deep-sea terminal and related services in British Columbia. Through a distinguished career, Mr. Phillips has served as Vice-President, Business Development and Strategy of MacMillan Bloedel Ltd., President and Chief Executive Officer of Dreco Energy Services Ltd. and Vice-President of Husky Oil Limited. Mr. Phillips is also a lawyer specializing in corporate and securities law. He is a former partner of Blake, Cassels, and Graydon, and the cofounder of a leading Edmonton law firm, Cruickshank Phillips.

Keith Purchase
Trustee

Keith Purchase is a corporate director based in Greater Vancouver. Prior to his retirement in 1999, he was Executive Vice-President and Chief Operating Officer of MacMillan Bloedel. Previously, Mr. Purchase was President and CEO of TimberWest Forest Products and Managing Director of Tasman Pulp and Paper in New Zealand. He is a director of Norske Canada, Art In Motion Income Fund and Integrated Paving Concepts Ltd. and Chairman of the Board of the Vancouver Coastal Health Authority, the largest healthcare authority in Canada.

Roderick R. Senft
Chairman and Trustee

Rod Senft is a founder and principal of Tricor Pacific Capital Inc., a private equity investment firm. He participates in all aspects of Tricor's investment activity, and is the Chairman of the Board of each Tricor portfolio company. Mr. Senft acts as a director of a number of public and private companies. Until 1993, Mr. Senft was a partner of Davis & Company, one of Vancouver's leading law firms. Prior to joining Davis & Company in 1978, he was Secretary and General Counsel for Cargill (Canada) Inc. Before joining Cargill, he practiced law in Winnipeg, Manitoba with Thompson, Dorfman, Sweatman.

Unitholder Information

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Registrar and Transfer Agent

Computershare Trust
Company of Canada

Auditors

Deloitte & Touche LLP
Vancouver, B.C.

Market Information

Units Listed:
Toronto Stock Exchange
Trading Symbol: **TIL.UN**

Investor Relations

Garry Flesher
Vice President, Finance
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Annual General Meeting

The Annual General Meeting of
Tree Island Wire Income Fund
will be held at 1:30 p.m. on
Thursday, May 12, 2005
at *The Fairmont Waterfront* hotel
900 Canada Place Way
Vancouver, B.C.

TREE ISLAND